

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7122

BILL NUMBER: HB 1541

NOTE PREPARED: Jan 16, 2015

BILL AMENDED:

SUBJECT: Enterprise Zones.

FIRST AUTHOR: Rep. Dermody

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that the fiscal body of a municipality may adopt a resolution renewing an enterprise zone (EZ) for an additional five years after the date on which the enterprise zone is set to expire. It provides that new municipal enterprise zones may be added after December 31, 2015. (Under current law, the board of the Indiana Economic Development Corporation may not add any new municipal enterprise zones after December 31, 2015.)

Effective Date: Upon passage.

Explanation of State Expenditures: *Indiana Economic Development Corporation (IEDC):* The bill provides that the IEDC Board may add new enterprise zones after December 31, 2015. The IEDC reviews and approves applications for proposed EZs, renews existing EZs, and monitors EZ operations and incentive use. The additional costs should be within the IEDC's current resources.

Explanation of State Revenues: *Summary-* The bill permits the fiscal body of a municipality in which an EZ is located to extend the expiration of the initial ten-year term of the EZ by an additional five years regardless of the time period for which it was originally created or the number of times it has been renewed. Only two EZs, Hammond and Kokomo, expired on December 31, 2014. If their fiscal bodies adopt resolutions renewing their enterprise zones for five more years, they will expire on December 31, 2019. The provision may decrease revenues to the General Fund by approximately \$80,000 to \$108,000 per taxable year.

If the fiscal body of a municipality decides to extend the term of an enterprise zone, revenue to the state would continue to be reduced for the duration of the extension.

Additional Information- The following incentives are available to businesses operating in EZs or individuals working within EZs: the Property Tax Investment Deduction; the Investment Cost Credit (applicable to the corporate and individual income taxes); the Employment Expense Credit (applicable to the corporate and individual income taxes, financial institutions tax, and insurance premiums tax); the Loan Interest Credit (applicable to the same taxes as the Employment Expense Credit); and the Employee Deduction (applicable to the individual income tax).

	Investment Cost Credit		Employment Expense Credit		Loan Interest Credit		Employee Deduction
Tax Year 2012	Individual	Corporate	Individual	Corporate	Individual	Corporate	Individual
Number of Claims	51	1	229	30	93	1	3,555
Amount Claimed	\$138,000	\$16,000	\$632,000	\$605,000	\$129,000	\$5,000	\$24 M
Revenue Loss	\$154,000		\$1.2 M		\$134,000		\$816,000

The lower limit of the estimated range is based on the ratio of real property tax deductions claimed by Hammond and Kokomo taxpayers to total real property tax deductions across all EZs. The upper limit is based on the ratio of the population of the two expiring EZs to the total population of Indiana.

Additionally, each zone business receiving tax-saving incentives in excess of \$1,000 per year must pay an annual registration fee of 1% of its tax savings to the IEDC. This is likely to have minimal revenue impact.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Local Option Income Tax-* Income tax deductions reduce the tax base for local option income taxes. As a result, taxing units in Howard County would continue to experience a revenue loss of \$44,000 to \$67,000 at the total county tax rate of 1.6% from the County Option Income Tax (COIT) and the County Economic Development Income Tax (CEDIT).

Taxing units in Lake County adhere only to the CEDIT and would thereby experience a revenue loss of \$42,000 to \$65,000 at the county tax rate of 1.5%.

Property Tax- In Pay 2013, four taxpayers within the Hammond and Kokomo EZs claimed about \$1.8 M in real property tax deductions. No taxpayers claimed personal property tax deductions.

State Agencies Affected: Indiana Economic Development Corporation.

Local Agencies Affected: Taxing units in Howard County and Lake County.

Information Sources:

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